

Message Text

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ACTION EB-07

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C O N F I D E N T I A L CAIRO 11931

EO 11652: GDS

TAGS: ECON, PFOR, IMF, EG

SUBJ: IMF REFORMS, CURRENT STATUS AS DESCRIBED BY MINFIN

REF CAIRO 11484,

1. REFTEL DESCRIBED REDUCTIONS IN SUBSIDIES DURING FIRST HALF OF 1976 RELATED TO US BY MINFIN STAFFERS DURING OMB VISIT. SUBSIDY REDUCTION WAS ONE OF MAJOR ECONOMIC REFORM POLICIES URGED BY IMF WHICH GOE AGREED IMPLEMENT. OTHERS WERE NOT IN GOVT EXPENDITURES, FOREIGN EXCHANGE OPERATIONS AND CUSTOMS DUTIES. GOE AGREED IN PRINCIPLE TO MOST OF THE ITEMS BUT IMPLEMENTATION HAS NOT BEEN AS RAPID OR AS COMPLETE AS EXPECTED. FOLLOWING IS DESCRIPTION WHICH MINISTER ABU ISMAIL PROVIDED RECENTLY OF GOE ACTIONS TO FULFILL ITS COMMITMENTS TO IMF. RESULTS, AS WILL BE SEEN, ARE DISAPPOINTING, AND INDICATE THAT DESPITE ALL THE DEBATE, ALL THE URGING, ALL THE PREDICTIONS OF DIRE CONSEQUENCES, GOE HAS CONTINUED ITS POLICY OF NON-POLICY IN ECONOMIC SPHERE.

(A) REDUCTION IN GOVT EXPENDITURE - ABU ISMAIL DESCRIBED "SMALL" REDUCTION IN GOVT EXPENDITURES BY ENFORCED POSTPONEMENT OF PURCHASE OF FURNITURE AND OTHER OFFICE-RELATED EXPENDITURES FOR ONE YEAR. HE DID NOT MENTION PROHIBITION
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AGAINST LAVISH ENTERTAINMENT AND DELAY OF VEHICLE PURCHASES

WHICH WERE IMPOSED EARLIER THIS YEAR, AND WHICH ARE FACETS OF THIS CATEGORY OF GOVT EXPENDITURE CUTS.) NO ACTUAL FIGURE FOR REDUCTION GIVEN.

(B) PURCHASES OF GOODS AT PARALLEL MARKET RATE - ABU ISMAIL NOTED COMPLIANCE WITH IMF WISH TO TRANSFER IMPORT OF SOME GOODS FROM OFFICIAL RATE TO PARALLEL MARKET RATE AND GOVERNMENT PROCUREMENT OF TOTAL 400 MILLION POUNDS' WORTH OF GOODS WERE THEREFORE SHIFTED, WITHOUT SUBSEQUENT INCREASE IN LE ALLOCATIONS FOR GOVT DEPARTMENTS INVOLVED. ABU ISMAIL DID ADMIT THAT THERE HAD ALREADY BEEN QUITE A FEW EXCEPTIONS TO THE NO-MAINTENANCE-OF-VALUE POLICY IN THE NATIONAL INTEREST. HE DID NOT INDICATE HOW MUCH EXTRA WOULD BE ALLOCATED FOR THIS PURPOSE, NOR DID HE MENTION THE LIST OF GOODS THAT HAVE SINCE BEEN EXEMPTED FROM THE INITIAL ALLOCATIONS.

(C) INCREASE IN CUSTOMS DUTIES - ABU ISMAIL'S MOST SUCCESSFUL POLICY WAS INCREASE IN CUSTOMS TARIFFS ON NON-ESSENTIAL GOODS. HE EXPLAINED THAT IT WOULD HAVE BEEN IMPOSSIBLE TO PRESENT BILL WITH CHANGES IN CUSTOMS REGULATIONS TO PEOPLES ASSEMBLY AND HAVE IT PASS. HE, THEREFORE, HAD DEVISED METHOD OF CALCULATING EXISTING DUTY LEVELS AT PARALLEL MARKET RATE VICE OFFICIAL RATE. TAXES INCREASES, ACCORDING TO THE MINISTER, AVERAGE 60 PERCENT ON THOSE ITEMS AFFECTED. ABU ISMAIL DESCRIBED MANEUVER AS HAVING BEEN VERY SUCCESSFUL IN FIRST HALF OF 1976 IN BRINGING DOWN QUANTITY OF SOME LUXURY IMPORTS. ABU ISMAIL PERSONALLY TOOK FULL CREDIT FOR IDEA OF USING PARALLEL MARKET VALUATION FOR CUSTOMS CALCULATION WHICH NOT ONLY INCREASED PRICES, AND THEREFORE HOPEFULLY BUDGETARY REVENUES. NO REFERENCE WAS MADE TO LIST OF EXEMPTED COMMODITIES THAT HAS SINCE BEEN RELEASED.

2. ABU ISMAIL ALSO MENTIONED FACT THAT IMPORT BILL HAD DROPPED IN FIRST HALF OF 1976 AND THAT ESTIMATES FOR 1976 TOTALS WERE NOT INCLUDING 300 MILLION POUNDS REDUCTION FROM 1975 LEVELS (SEE CAIRO 11233). ABU ISMAIL EXPLAINED THAT REASON FOR DECREASE WAS GENERAL DECLINE IN WORLD PRICES; QUANTITIES OF ESSENTIAL COMMODITIES PURCHASES BY GOE HAD ACTUALLY RISEN, MINFIN STAFFERS INDICATED THAT INTERMEDIATE

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AND RAW MATERIAL IMPORTS HAD LARGELY BEEN POSTPONED TO SECOND HALF OF 1976 AND THAT TOTAL 1976 GOODS IMPORT BIL, THEREFORE, COULD BE CONSIDERABLY HIGHER THAN 1976 DEPENDING ON HOW MUCH OF PLANNED EXPENDITURES ACTUALLY TAKE PLACE.

3. ANOTHER OF MEASURES THAT IMF REQUESTED, REDUCTION IN GOVERNMENTAL EXPENDITURES, GOE HAD EARLIER RESULTED IN ANNOUNCEMENT THAT TOTAL BUDGET WAS TO BE REDUCED BY LE 100

MILLION. ABU ISMAIL DID NOT REFER TO TI, BUT ASSEMBLY RECENTLY HAD A STORMY DEBATE OVER, AND THEN PASSED, A GOE REQUEST FOR AUTHORITY TO SPEND AN ADDITIONAL LE 100 MILLION TO COVER UNEXPECTED NEEDS.

4. COMMENT: ALTHOUGH ABOVE MENTIONED POLICY SHIFTS ARE IN CATEGORIES SUGGESTED BY IMF, THERE HAS BEEN SEVERE BACK-SLIDING SINCE THEY WERE INITIALLY INSTITUTED. FURTHER, THEY ARE RATHER LEAN MEASURES COMPARED TO MANGITUDE OF PROBLEMS FACING GOE. REFLECTED IS UNWILLINGNESS OF GOE ECONOMIC OFFICIALS TO TAKE MEASURES TO PUT ECONOMY ON ROAD TO REFORM AND RECOVERY. ACCORDING TO OUR IMPRESSION, GOE HOPING THAT DECREASE IN WORLD PRICES WILL SOMEHOW ALLEVIATE SUBSIDY AND FOREIGN EXCHANGE PROBLEMS AND THUS NEED TO IMPLEMENT ANY FURTHER SO-CALLED RECOVERY MEASURES.
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